

# Economic & Revenue Outlook

Presented to  
House Community Development and Housing Committee

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Olympia, Washington



**WASHINGTON STATE**  
**ECONOMIC AND REVENUE FORECAST COUNCIL**



# Summary

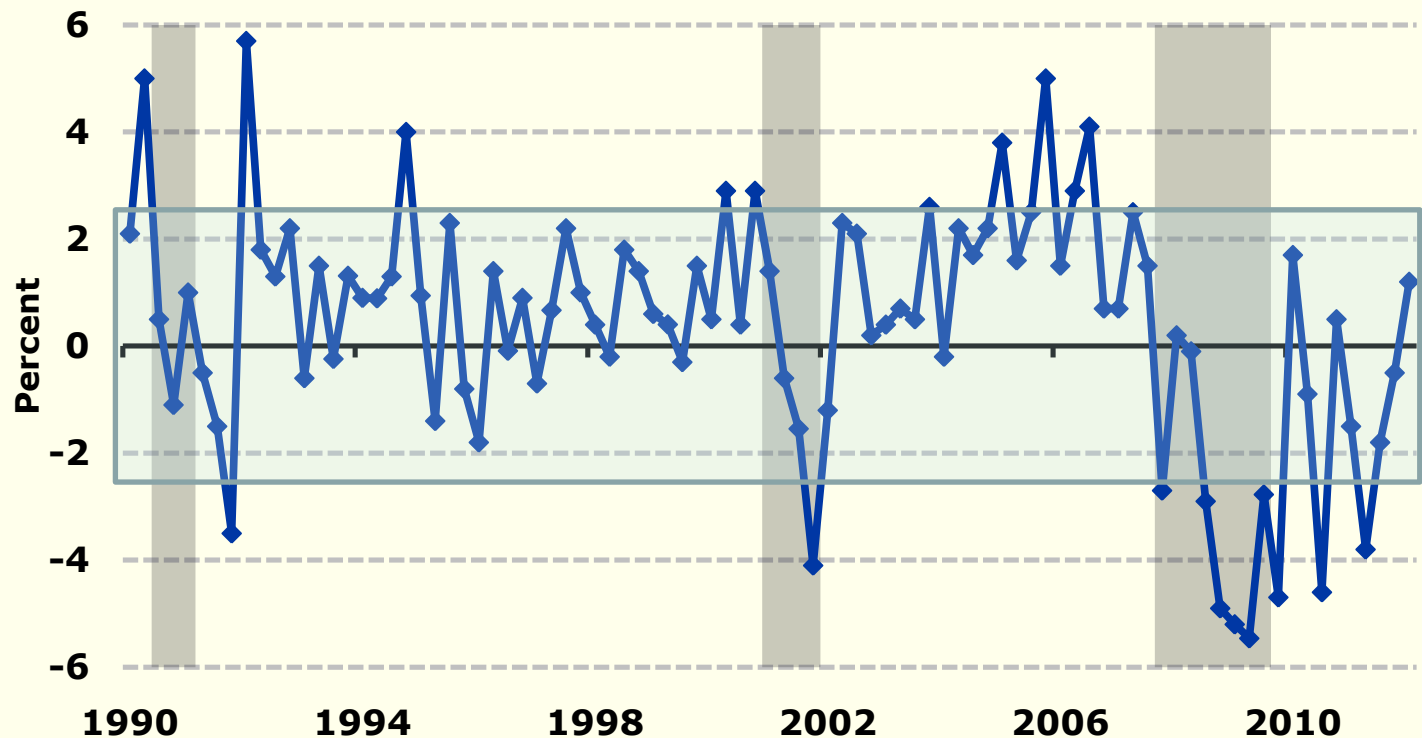
- Events are unfolding as expected in the November forecast
- However, the uncertainty in the baseline remains very high, mostly due to out-of-state factors
- Within WA, there is fiscal drag from declining state and local government budgets
- Revenue growth has been restrained due to a stagnant construction sector
- Revenues since the November forecast are \$20 million (1.2%) above expectations
- Events to date since the November forecast do not indicate the need for a significant forecast revision



# Revenues are coming in close to the November forecast

The variances reported here are net of one-time payments

**Average Adjusted Monthly Variance**



Source: ERFC; collections through Dec.9, 2011



# The state's risk matrix shows most risks from outside state



## Washington's Economy

EUROPE  
Sovereign  
Debt

GRE

ITA

IRL

ESP

POR

EUROPE  
Banks

DEU

FRA

U.S.  
Banks

Political Gridlock In  
Washington DC

- Debt limit debate
- Super Committee

Weak consumer and business confidence

**State of  
Washington**

**Pluses**  
Aerospace  
Software  
Exports  
Agriculture

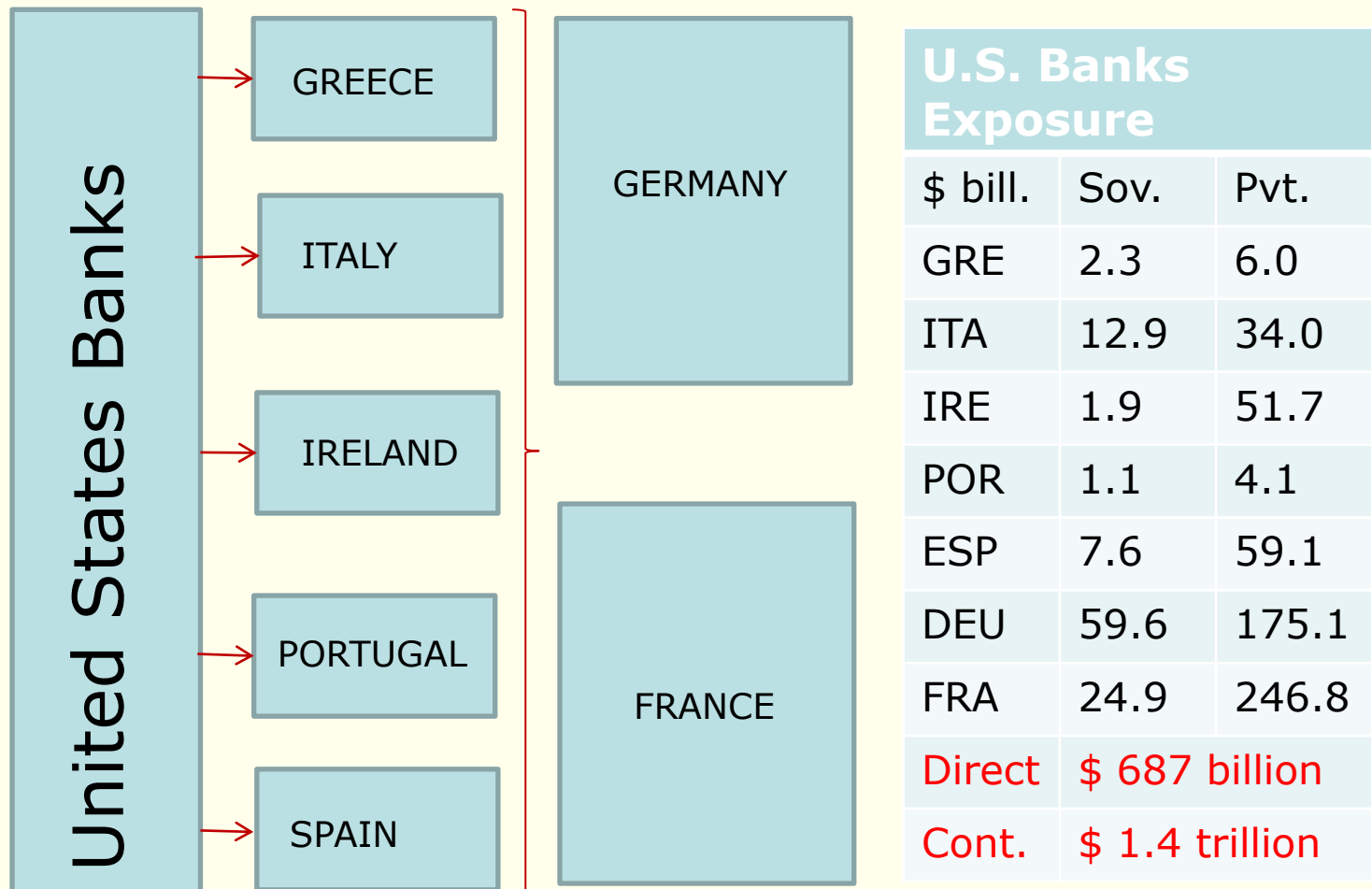
**Minuses**  
Construction  
State & Local  
Government

Source: ERFC

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# U.S. banks' exposure to Europe is worrying

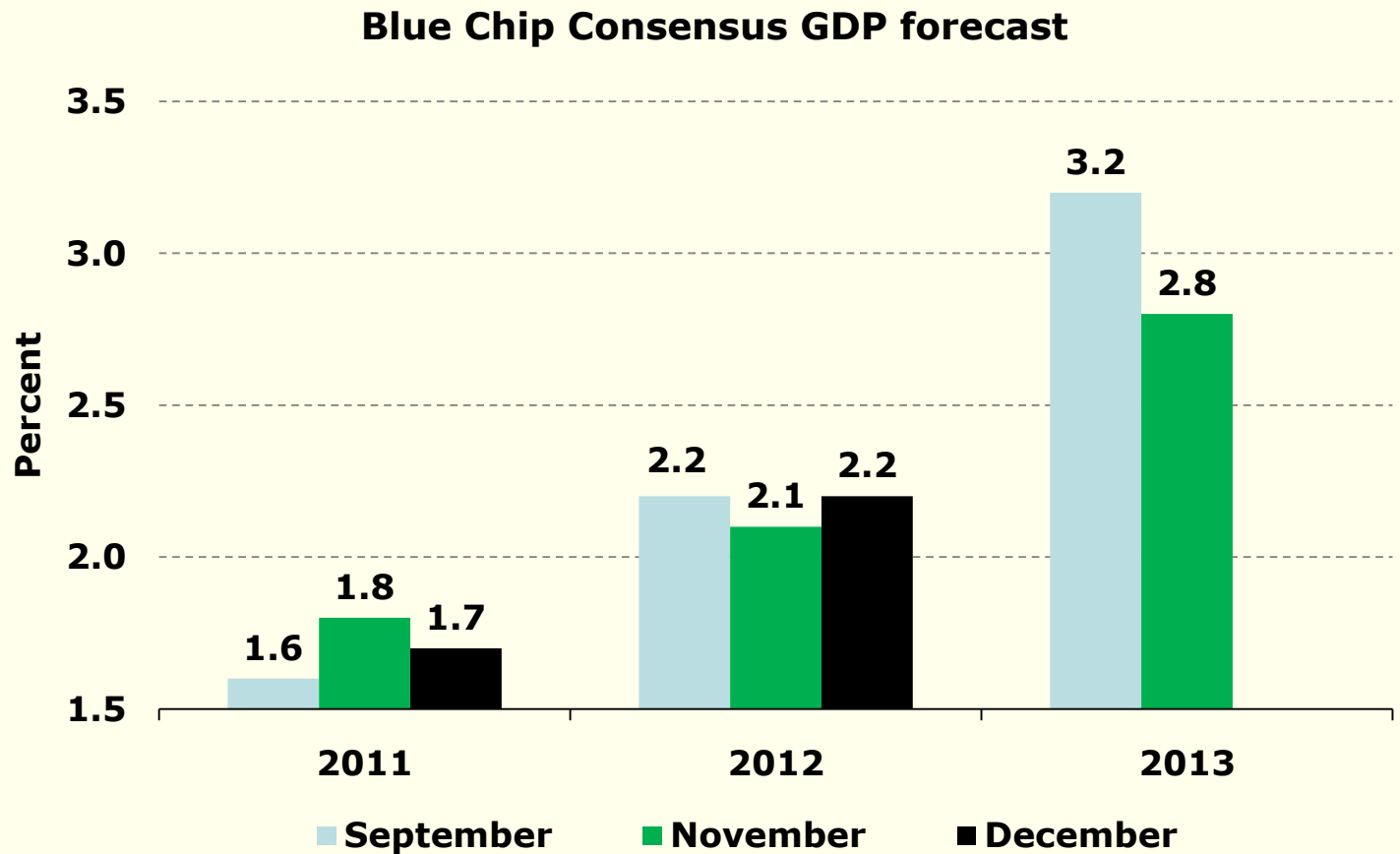


Source: Bank of International Settlements, 2011 Q2

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# The consensus economic outlook has been fairly steady recently

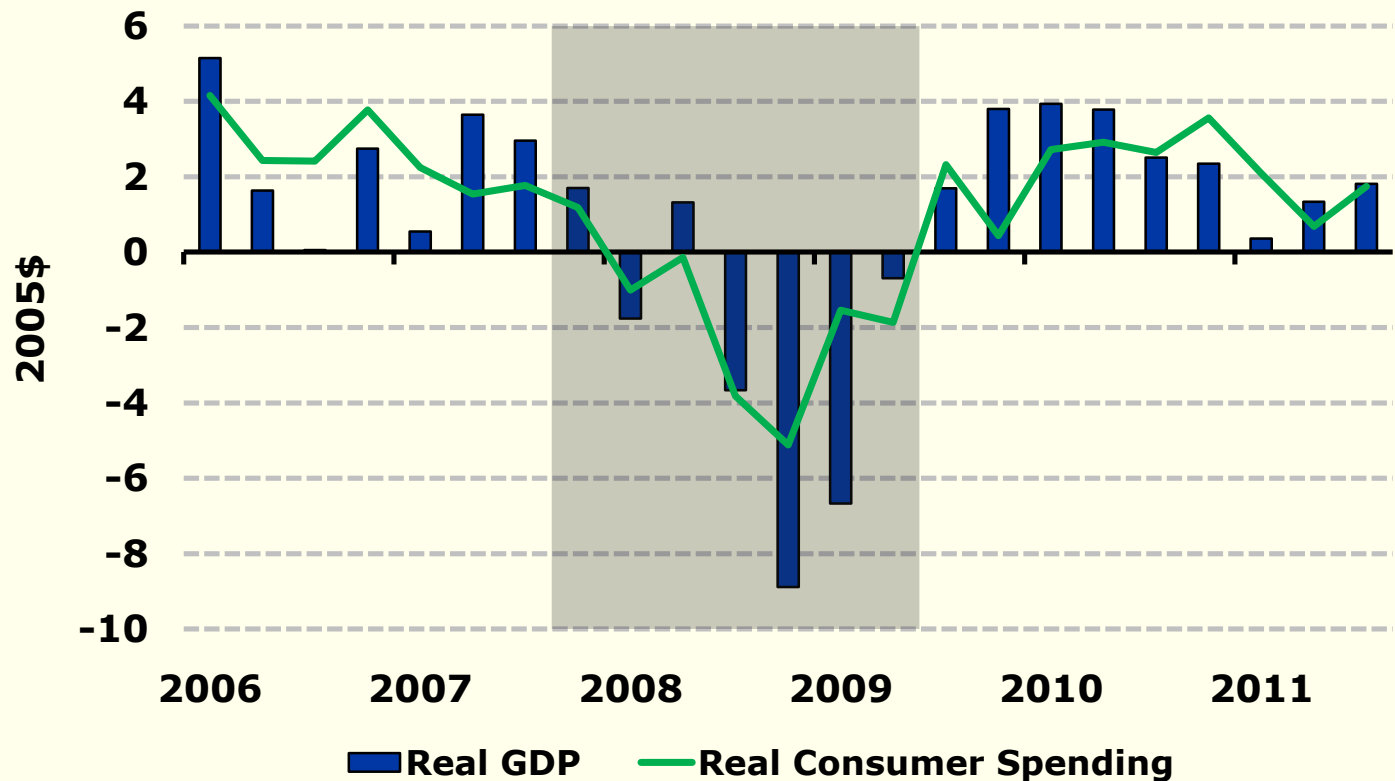


Source: Blue Chip Economic Indicators, data through December 2011



# Consumer spending growth is improving, but is it sustainable?

Percent growth, SAAR

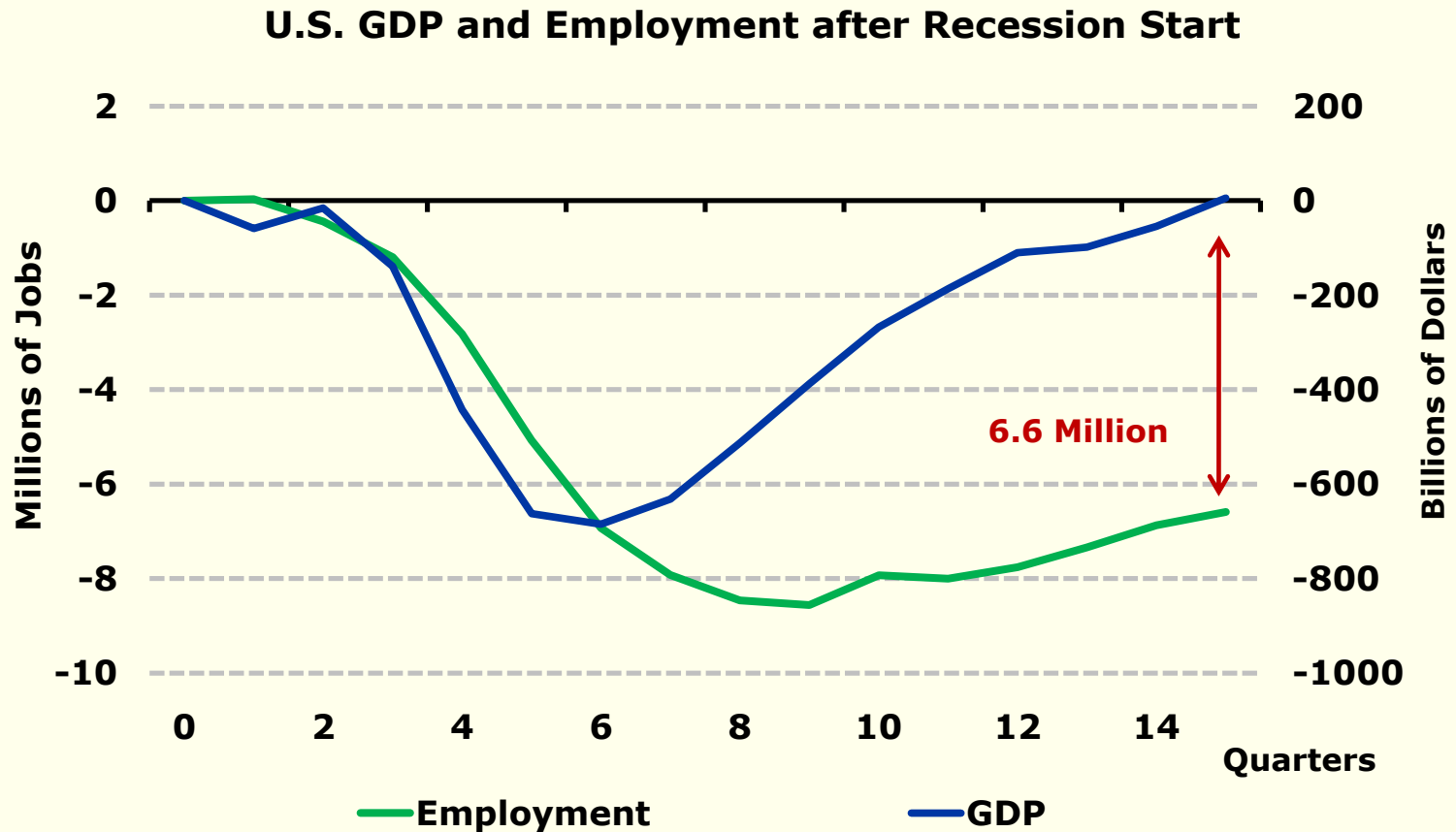


Source: BEA, data through 2011 Q3, third estimate



# The U.S. economy is now producing its pre-recession output with fewer jobs

Data  
normalized  
to recession  
start,  
2007Q4 = 0



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Source: BEA, BLS, ERFC; data through 2011 Q3

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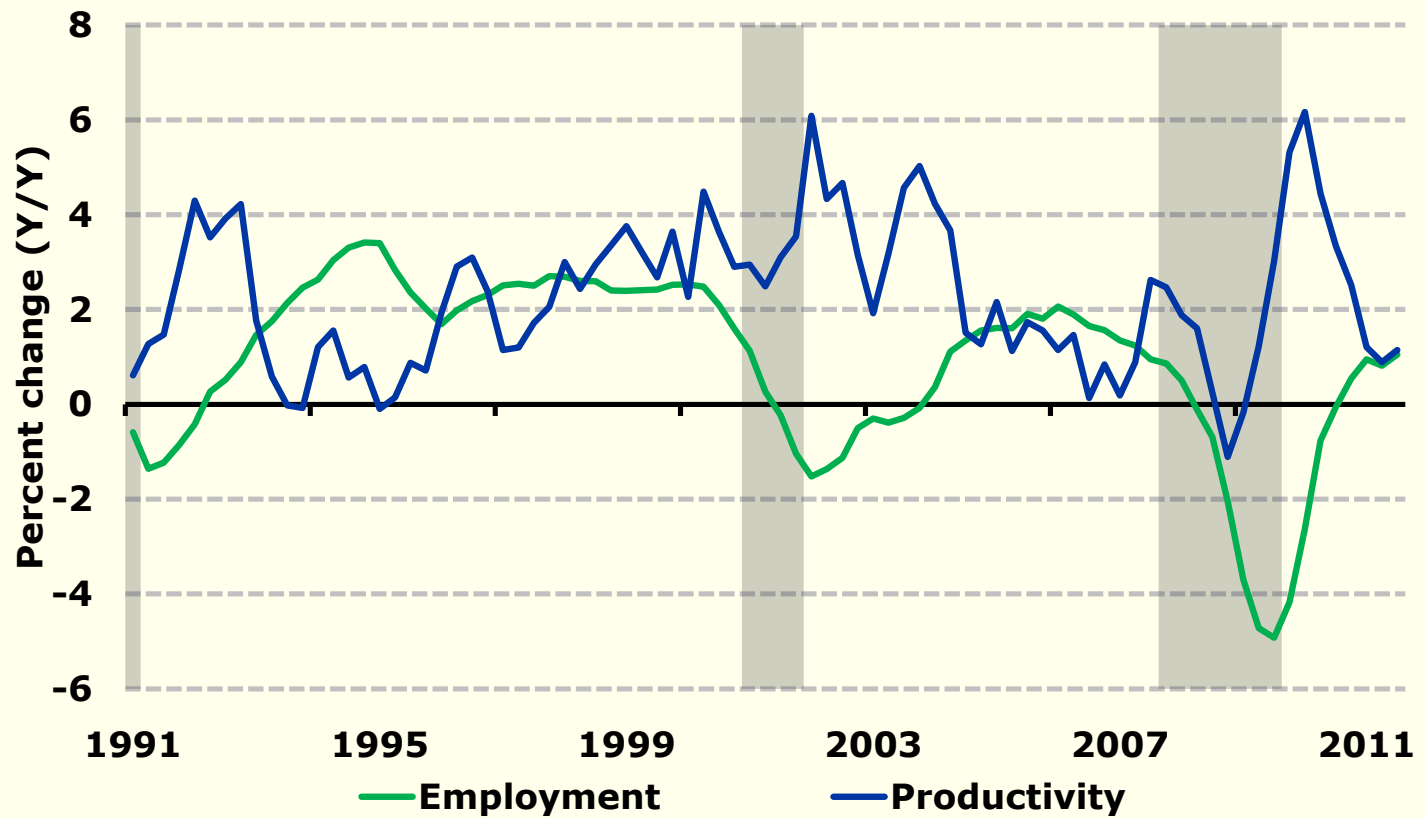




# Labor productivity growth has slowed job growth

Any  
increase in  
final  
demand will  
translate to  
job growth  
after labor  
productivity  
declines

**U.S. Employment & Labor Productivity Growth**



Source: BLS; data through 2011 Q3

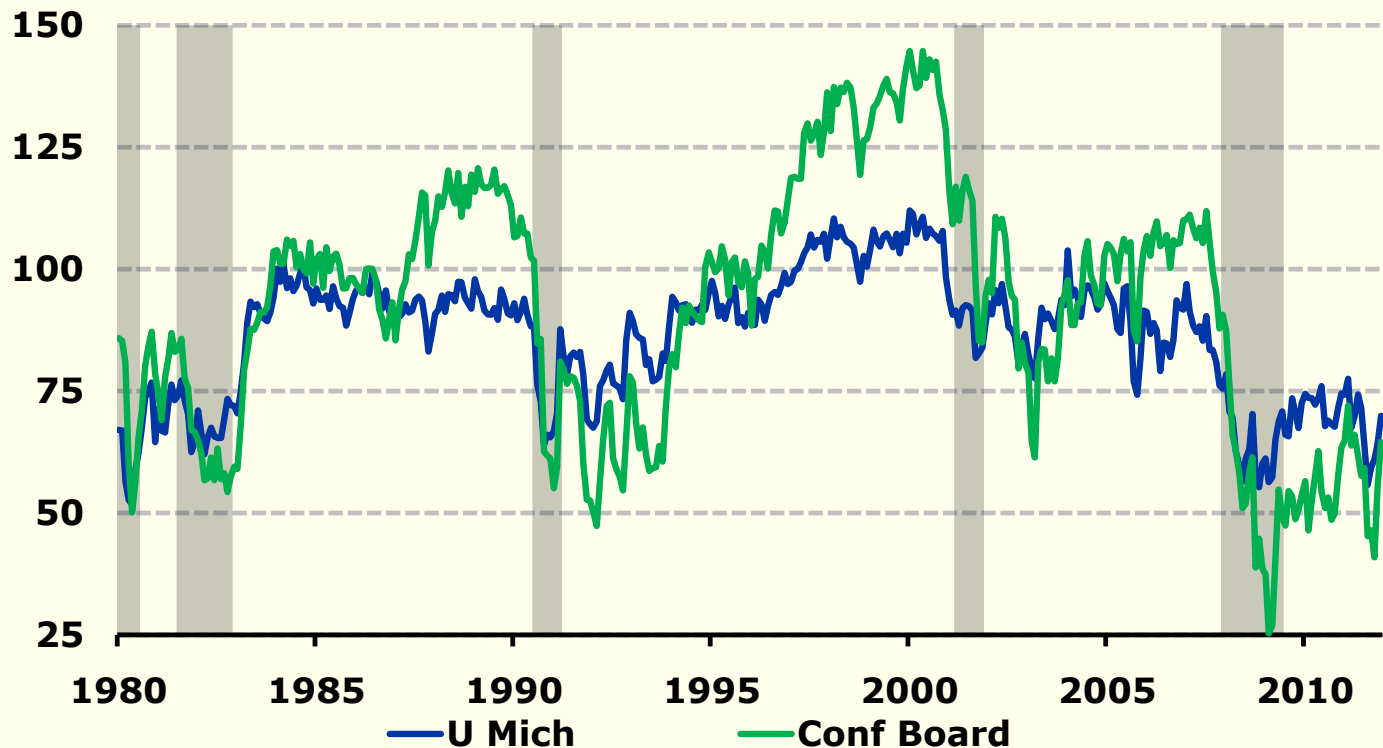


# Consumer confidence is showing some signs of firming, but still weak

**Index**

**Mich: 1966Q1 = 100, SA**

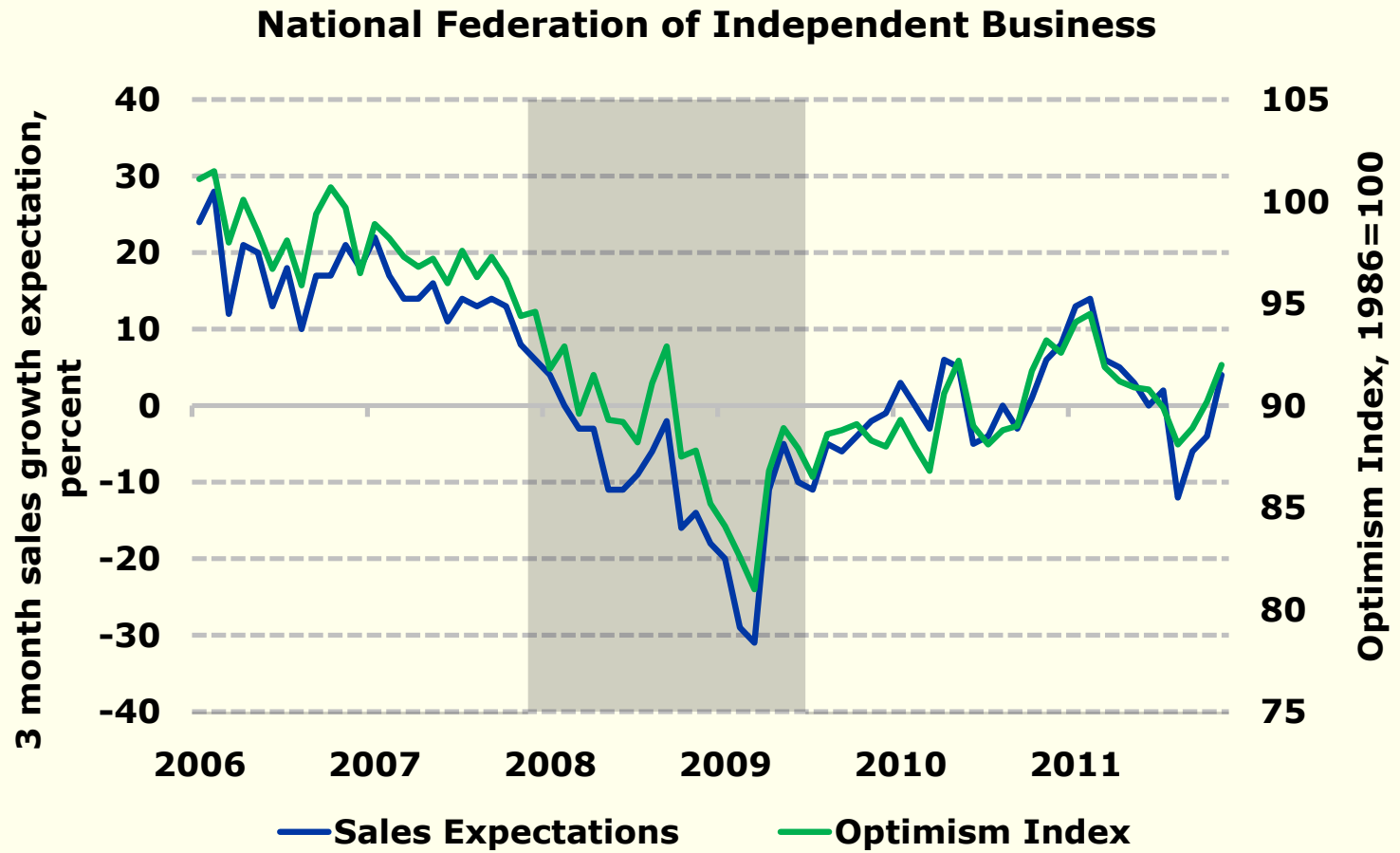
**Conf Board: 1985 = 100, SA**



Source: University of Michigan; Conference Board, data through December 2011



# Small business optimism and sales expectations are weak but improving



Source: National Federation of Independent Business; data through November 2011



# Stock market volatility down but EU slow burn continues

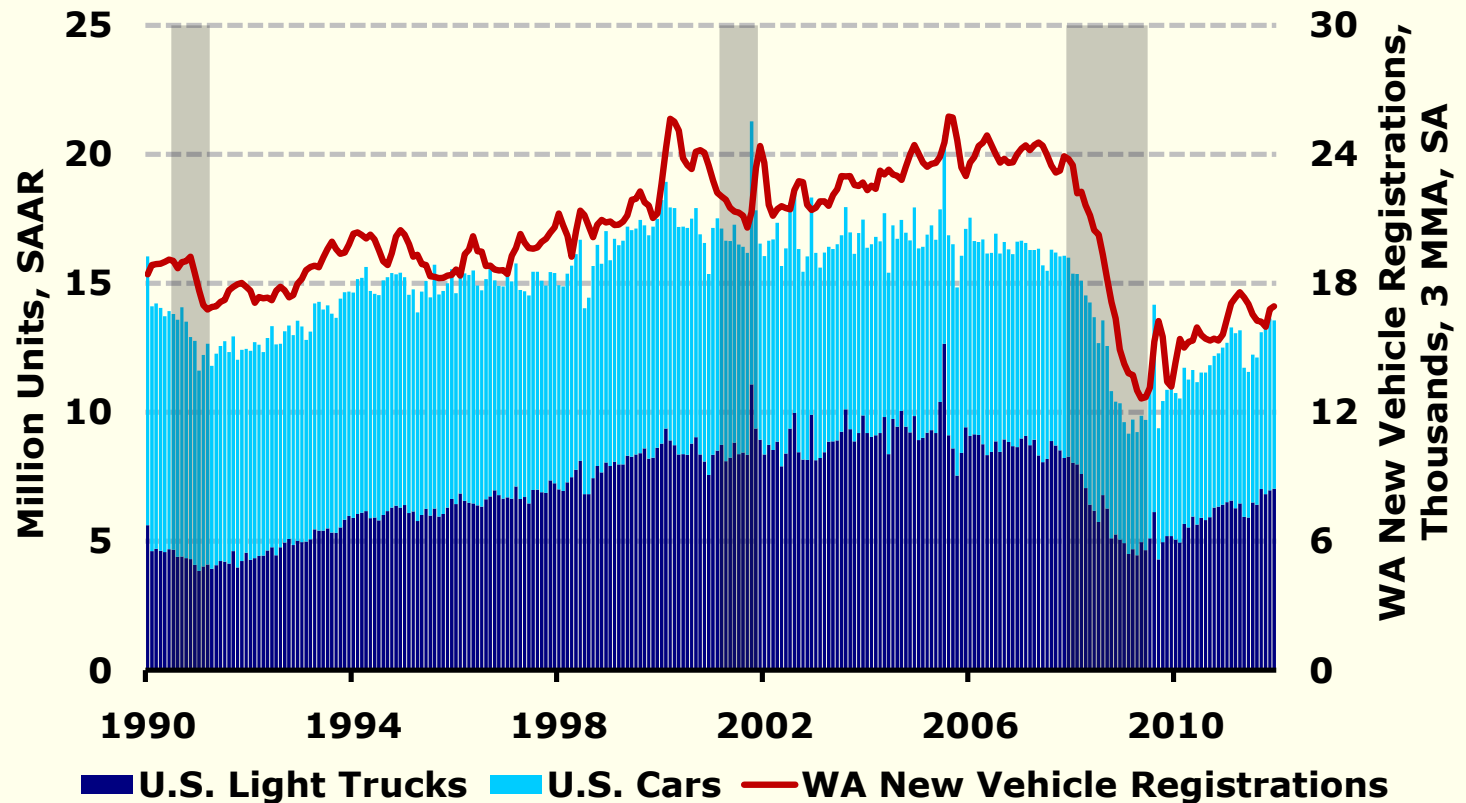


Source: Yahoo! Finance; data through December 30, 2011



# U.S. LMV sales have recovered from recent supply chain disruptions

U.S. LMV sales in December were up 8.4% Y/Y

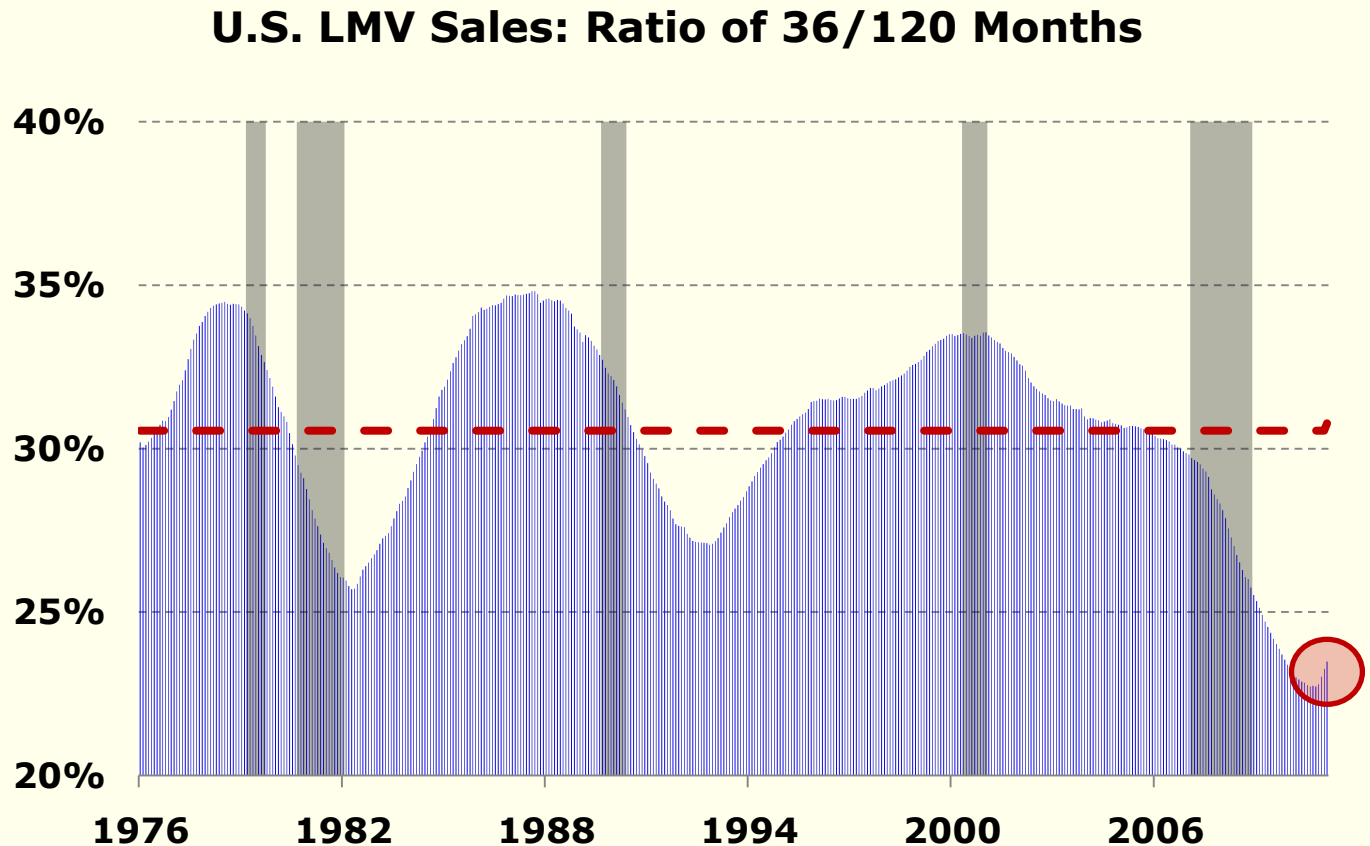


Source: Autodata Corporation, WA DOL; data through December 31, 2011, WA estimated



# Relative age of the car fleet indicates continued turnaround in car sales

The percent of "old" cars on the road was at a historic high in June and has now been falling over the last 6 months

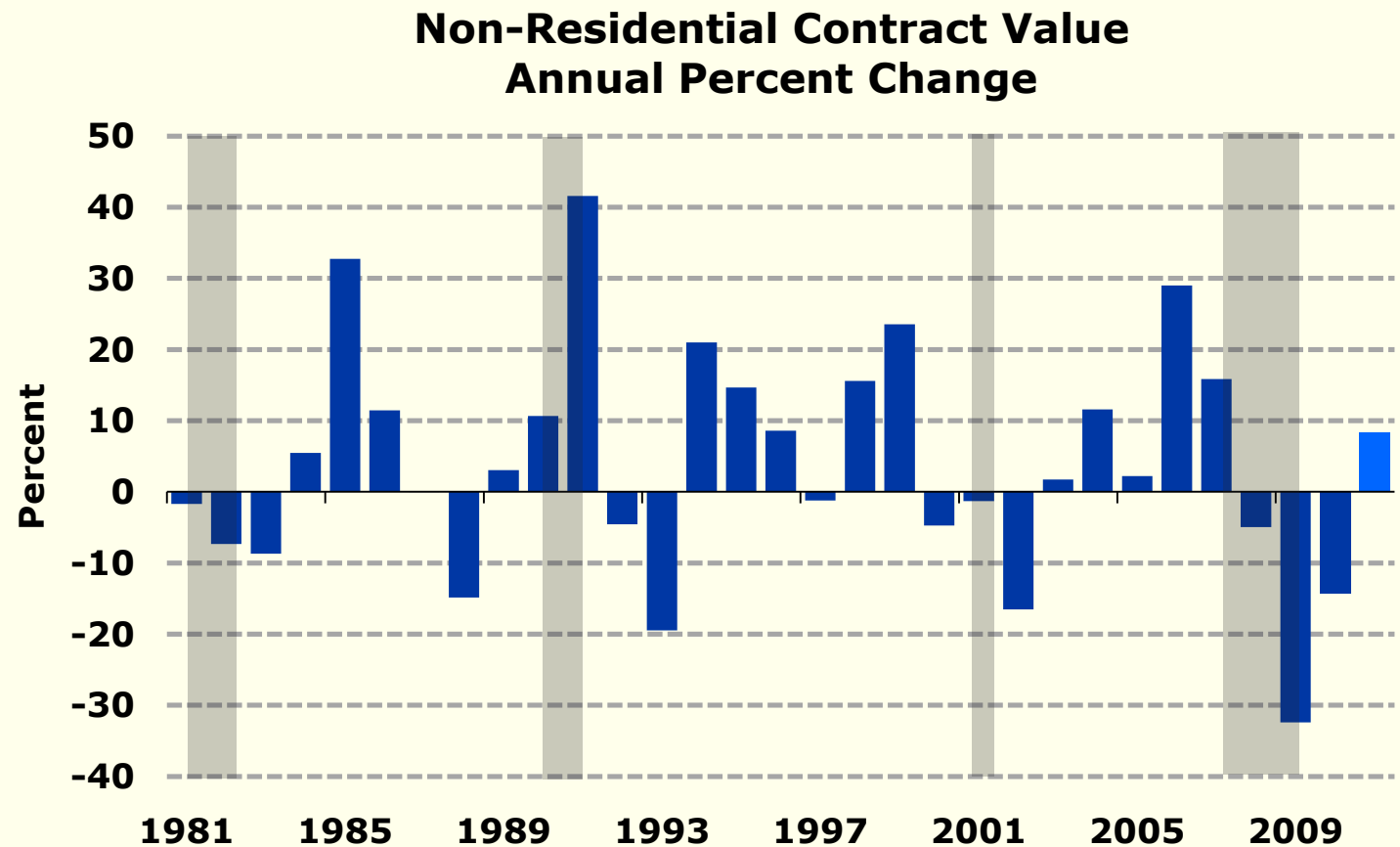


Source: Autodata Corporation, ERFC; data through December 2011

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# WA non-residential contracts have turned up for the first time in four years

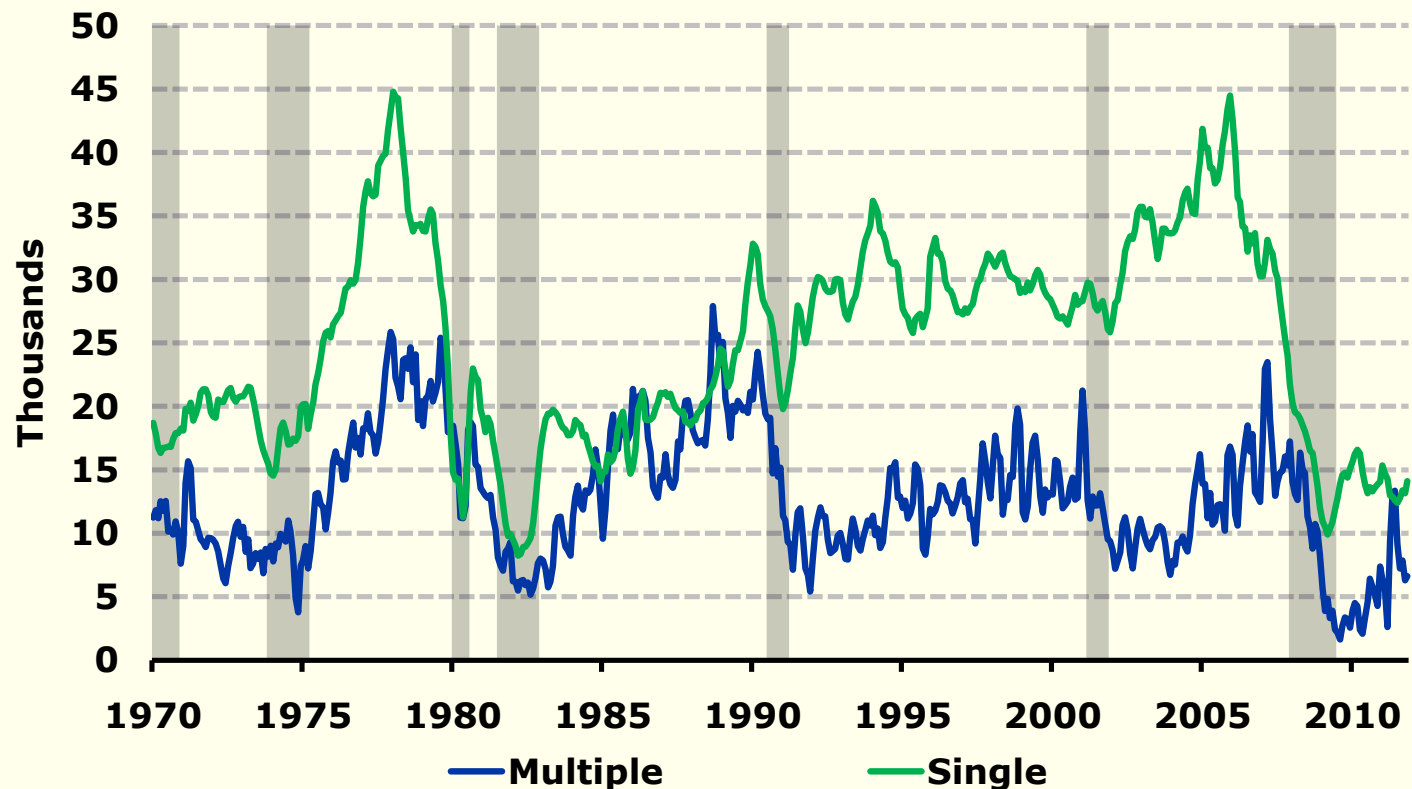


Source: McGraw-Hill Construction, data through November 2011



# WA multi-family building permits are improving

**Washington Housing Units Authorized by Building Permits, 3MMA, SAAR**



Source: U.S. Census Bureau; data through November 2011



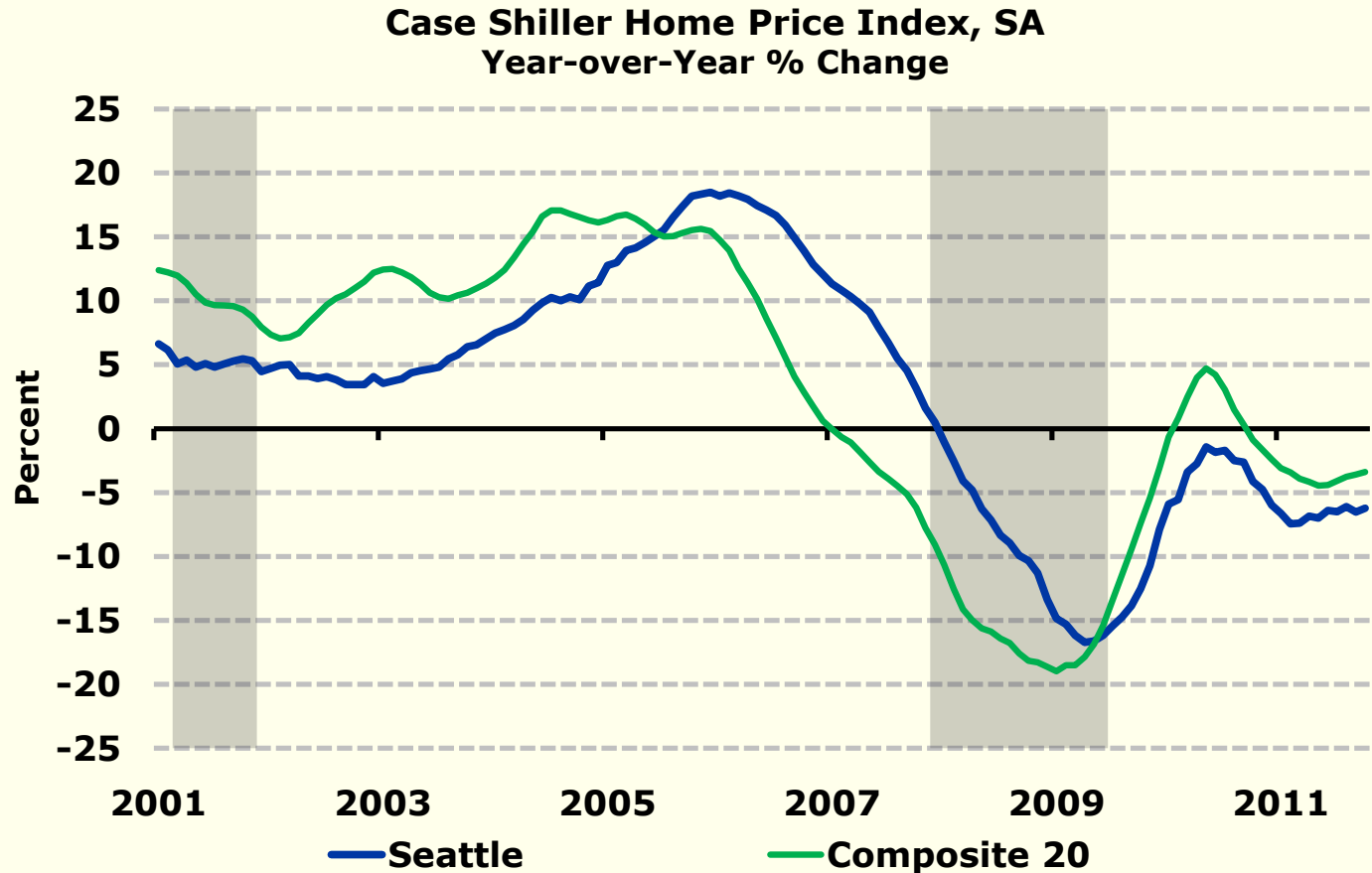


# Single-family home prices continue to decline

Oct 2011

U.S. is  
down  
3.4%

SEA is  
down  
6.2%



Source: S&P/Case-Shiller; data through October 2011



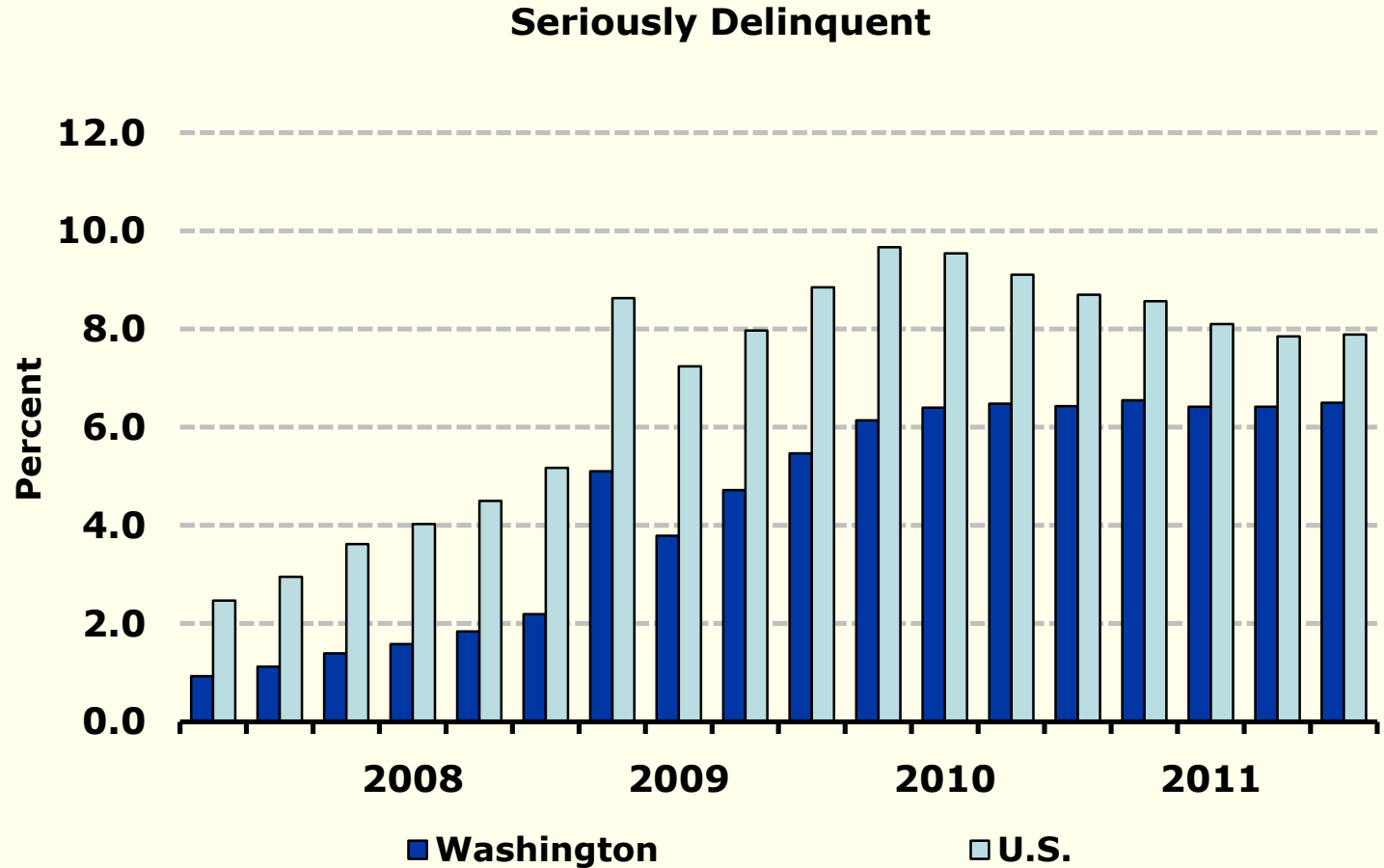
# More foreclosures can be expected...

## WA Rank:

**2011Q2 : 23**

**2011Q3 : 23**

Seriously  
Delinquent =  
90+ Days  
Past Due or  
in foreclosure



Source: Mortgage Bankers Association® National Delinquency Survey, data through 2011 Q3

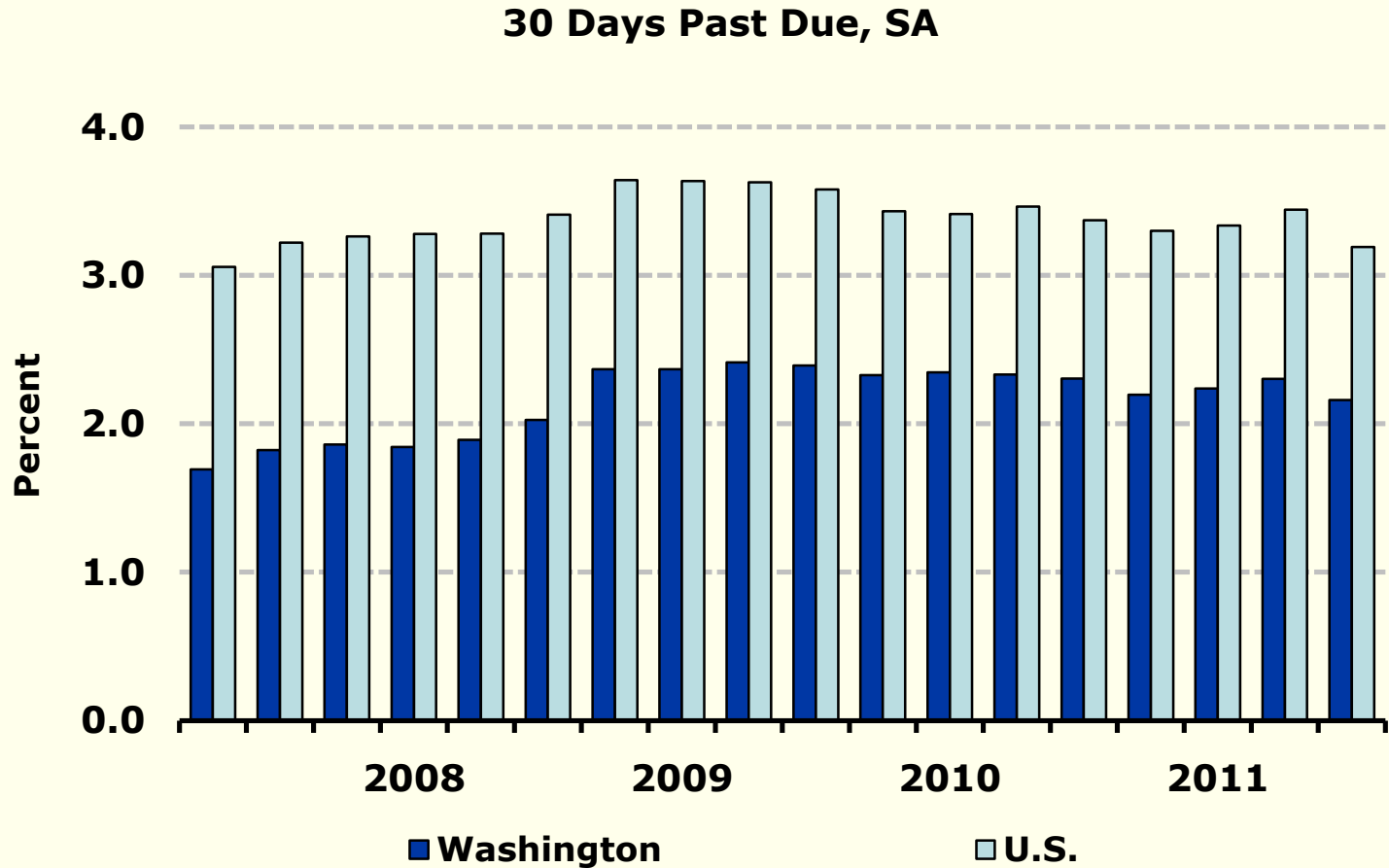


# ...but will eventually slow down

**WA Rank:**

**2011Q2: 47**

**2011Q3: 45**



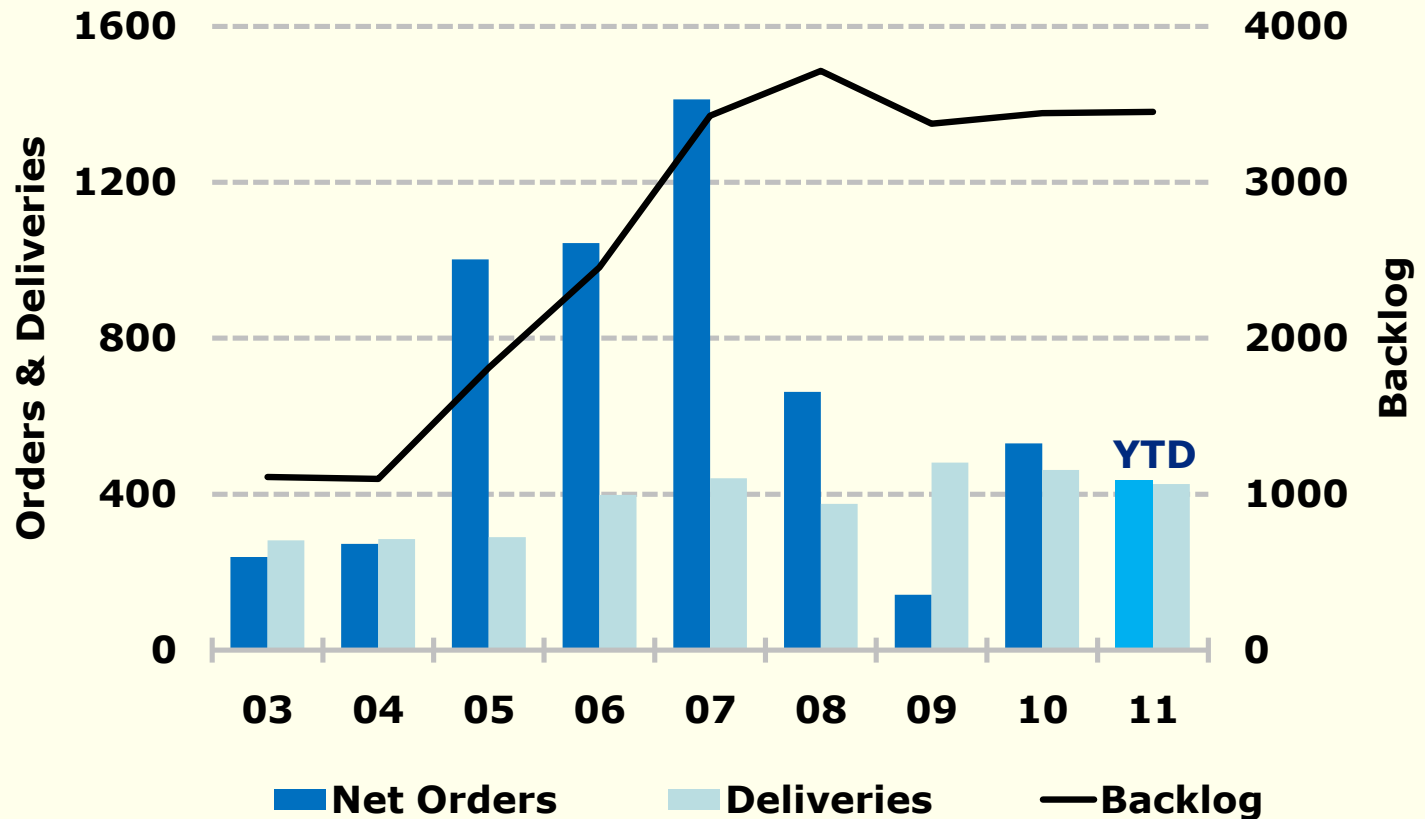
Source: Mortgage Bankers Association® National Delinquency Survey, data through 2011 Q3

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# Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker



Source: Boeing, data through November 2011



# Software publishing employment is growing

Percent change, year ago



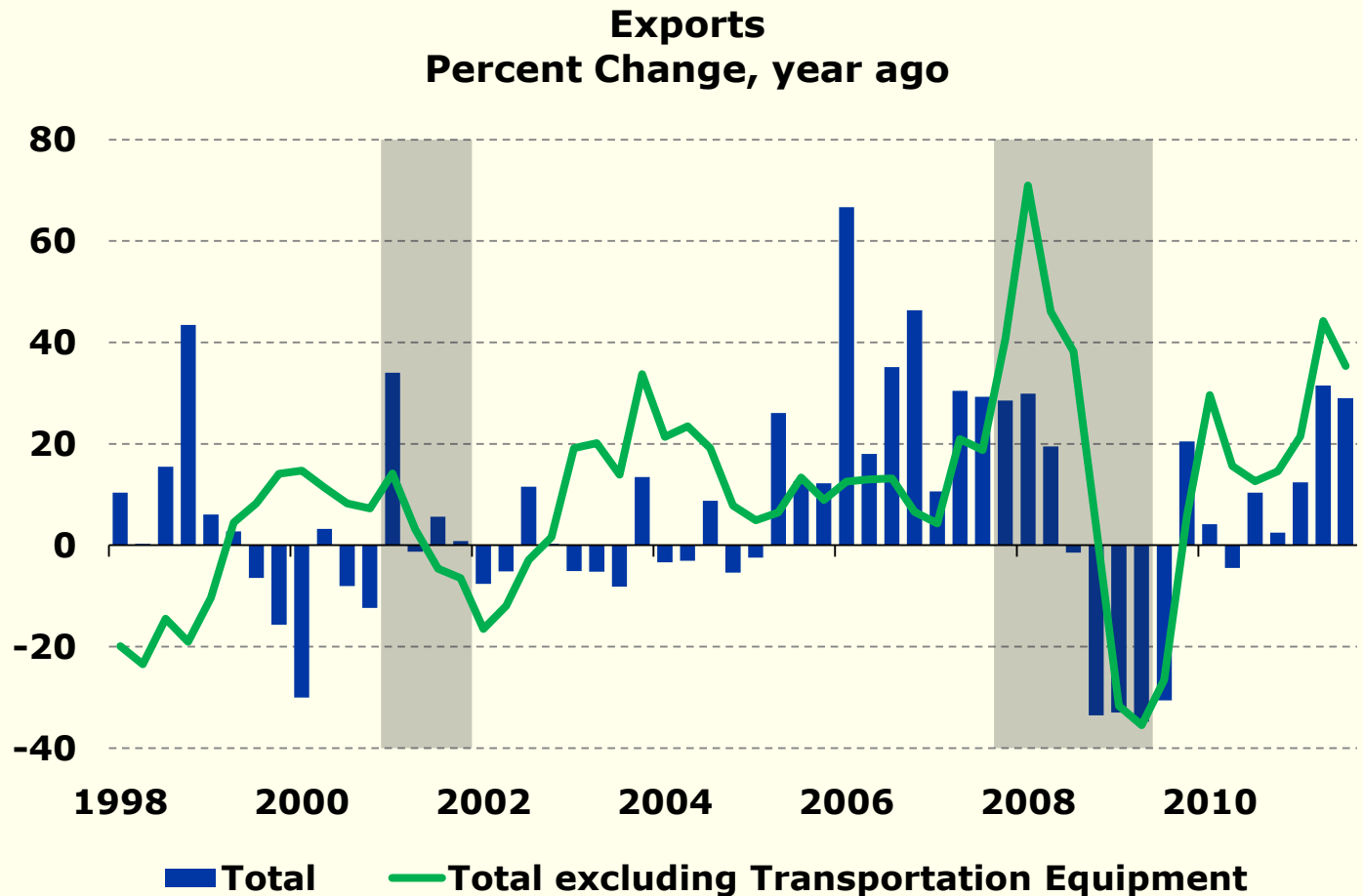
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Source: ERFC November 2011 forecast; actual through November 2011



# WA export growth is strong, and will help state outperform in the recovery

Total exports were up 29% y/y in Q3



Source: Wiser Trade Data; through 2011 Q3



# Recent free trade agreements will benefit the state

	Rank	USD	%	Key Industries	Detail
South Korea	4 <sup>th</sup>	\$2.7 Billion	5.1%	Agriculture, Transportation Equipment	92% of trans equip barriers eliminated immediately, 2/3 of ag barriers
Panama	27 <sup>th</sup>	\$315 million	0.6%	Transportation Equipment	Over 90% of aerospace exports become duty free immediately
Colombia	50 <sup>th</sup>	\$56 million	0.1%	Petroleum, Chemicals, Machinery	Majority of exports become duty free immediately

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Source: U.S. Department of Commerce, Wiser Trade; data through 2010



# WA employment will recover slightly faster than the U.S.

WA employment peaked 1 month after U.S. (Feb. 2008 vs. Jan. 2008)

Both WA and the U.S. reached a trough in Feb. 2010

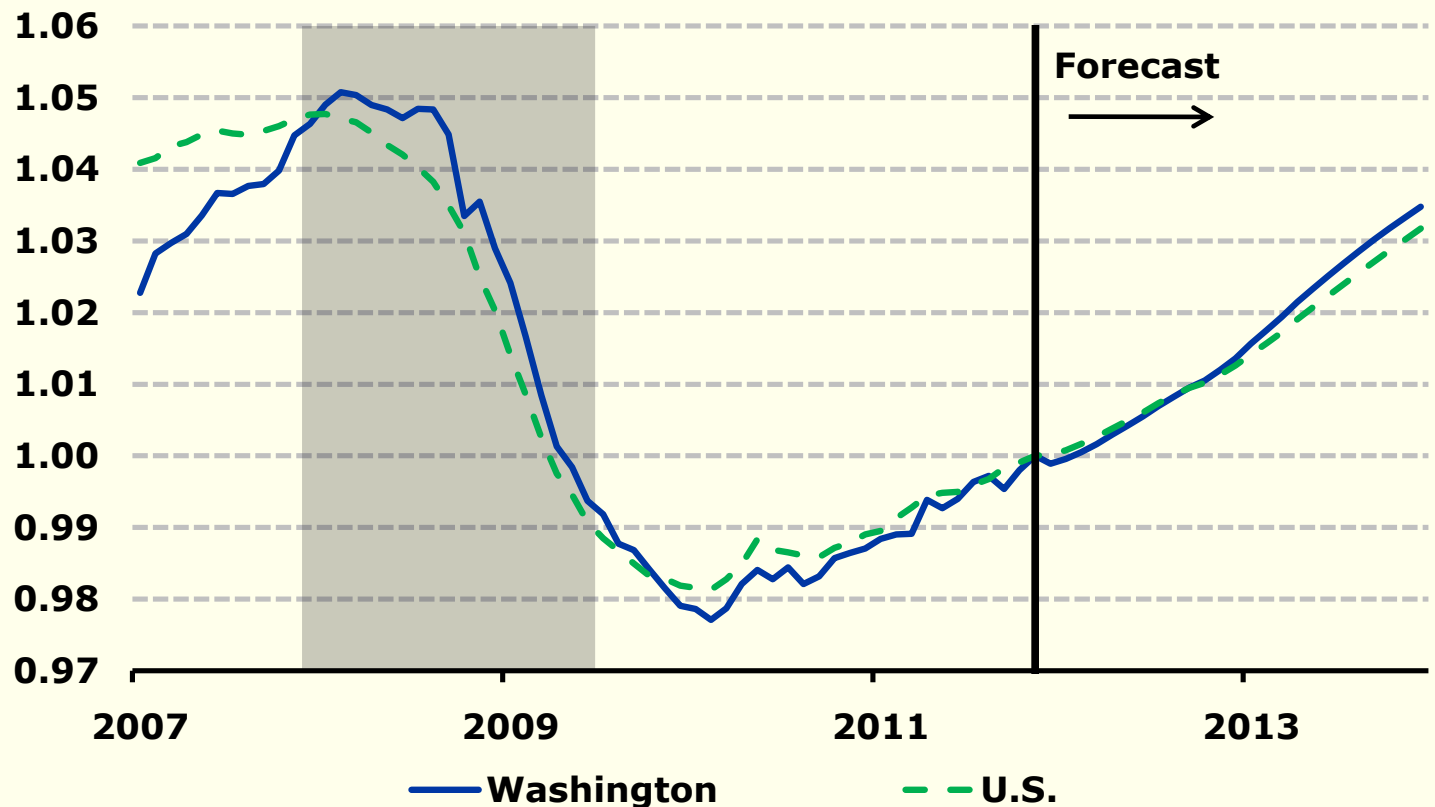
Both WA and the U.S. won't reach their previous peak until after 2013

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**November 2011 = 1.0**



Source: ERFC November 2011 forecast; actual through November 2011

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# WA personal income will recover faster than that of the U.S.

Date of regaining peak:

**WA:**

Nominal  
2011Q1

Real  
2012Q2

**U.S.:**

Nominal  
2010Q4

Real  
2012Q3

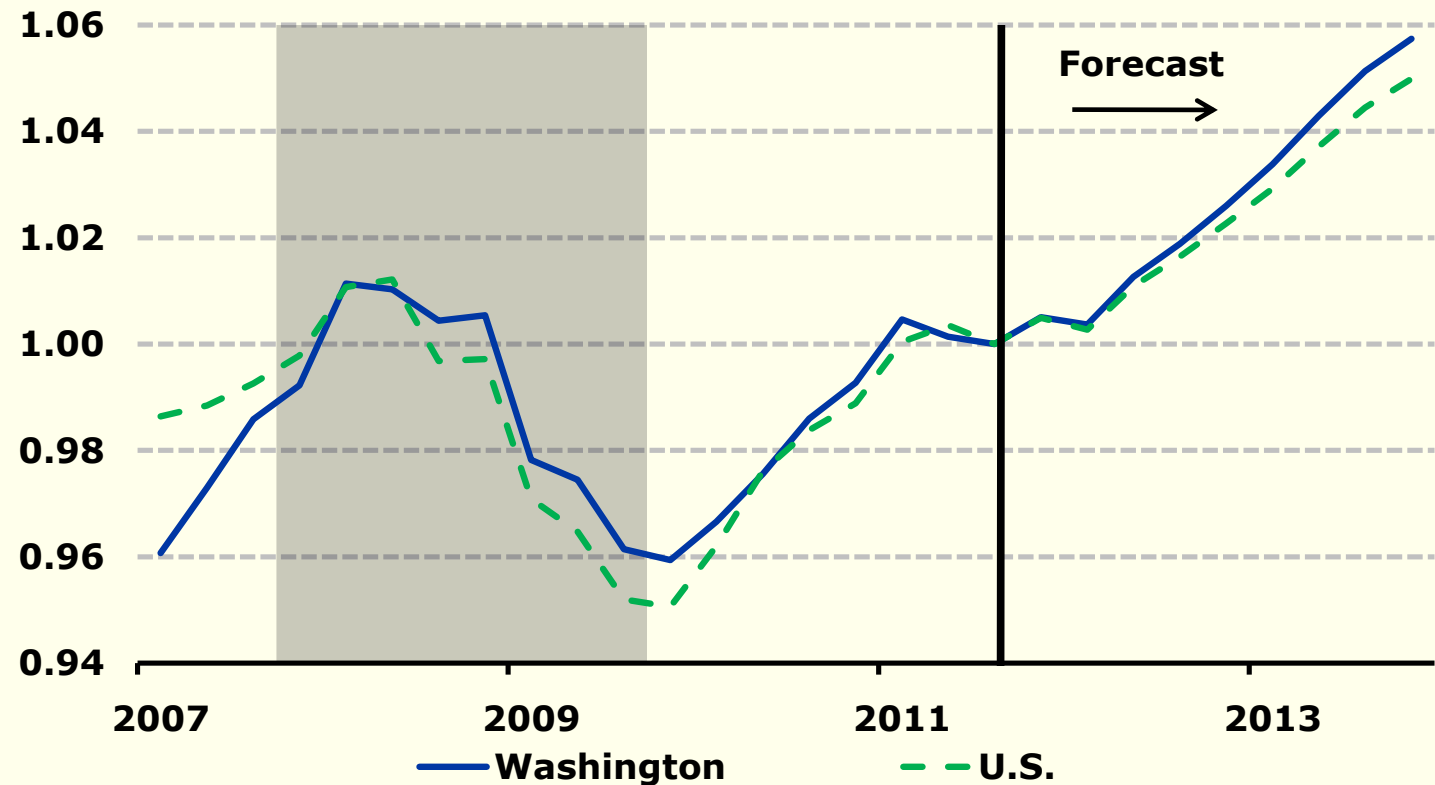
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**2011Q3 = 1.0**



Source: ERFC November 2011 forecast; actual data through 2011Q3

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# Forecast changes: General Fund State, 2011-2013 Biennium

**September Forecast:**

**\$30,311 million**

**USD  
millions**

## November 2011 Forecast

	<u>Collection Experience</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	(\$13)	(\$3)	(\$147)	\$28,605	(\$162)
All other agencies	\$1	\$41	(\$2)	\$1,584	\$40
<b>Total GF-S</b>	<b>(\$12)</b>	<b>\$38</b>	<b>(\$148)</b>	<b>\$30,188</b>	<b>(\$122)</b>

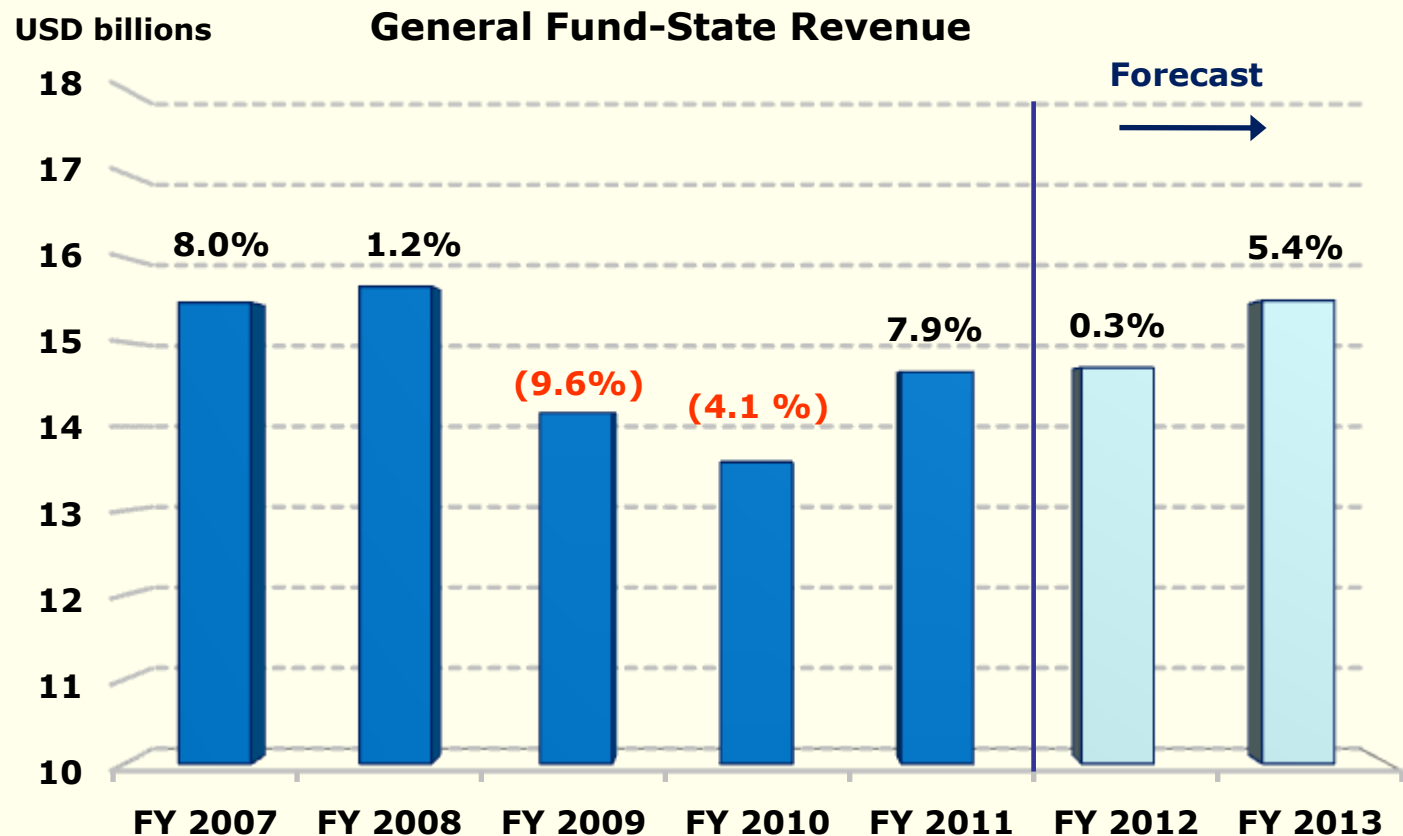
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\* Detail may not add to total due to rounding



# General Fund\* forecast by fiscal year

FY 2011 revenues were boosted by tax amnesty program and one-time transfers of non-GF-S funds into the GF-S



\*General Fund & Related Funds for FY 07-09, General Fund – new definition for FY 10-13  
Source: ERFC forecast, November 2011

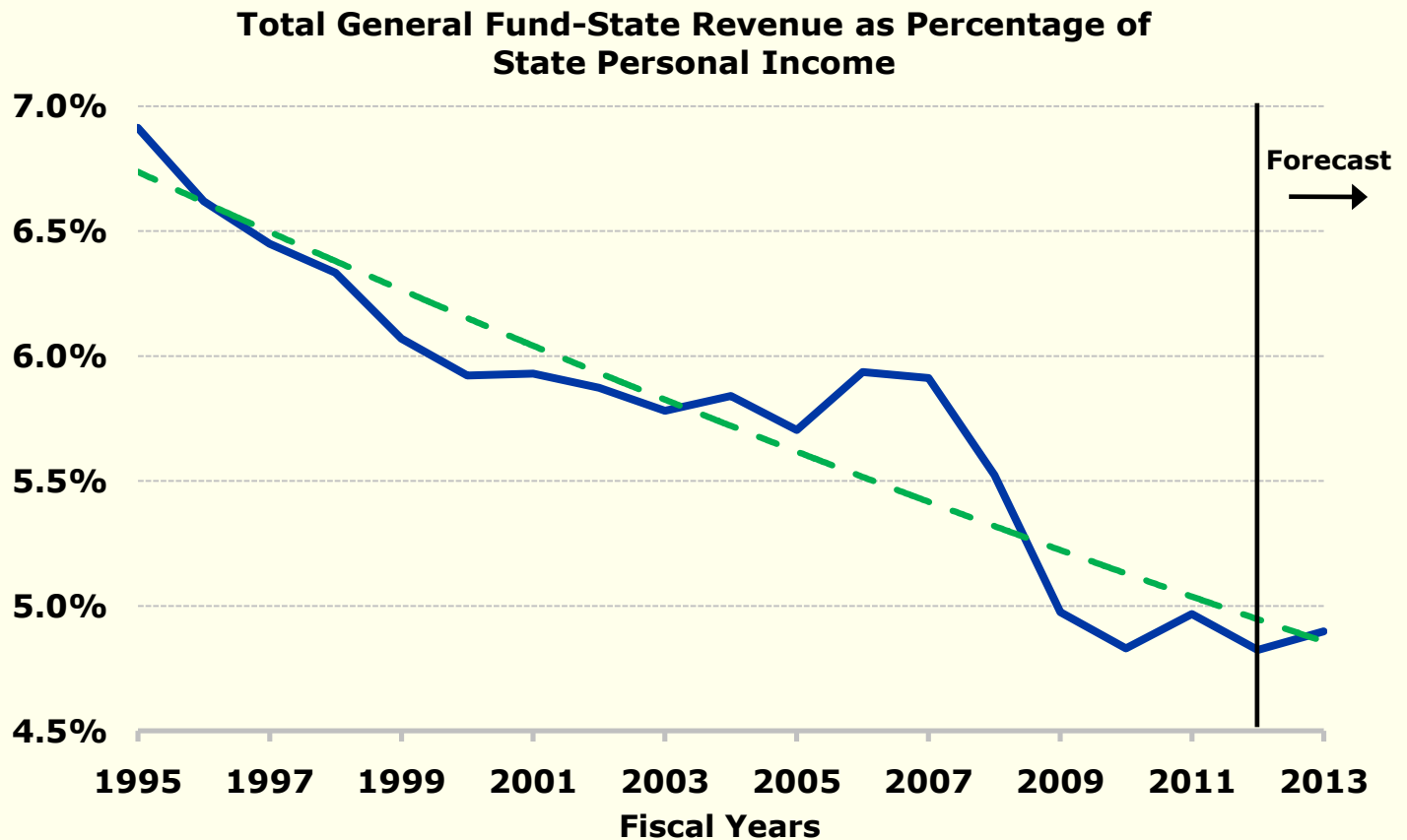
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# GF-S revenues as a share of personal income will be below trend until FY13



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\*Current definition of Revenue Act

Source: ERFC; data through FY 2011, November 2011 forecast



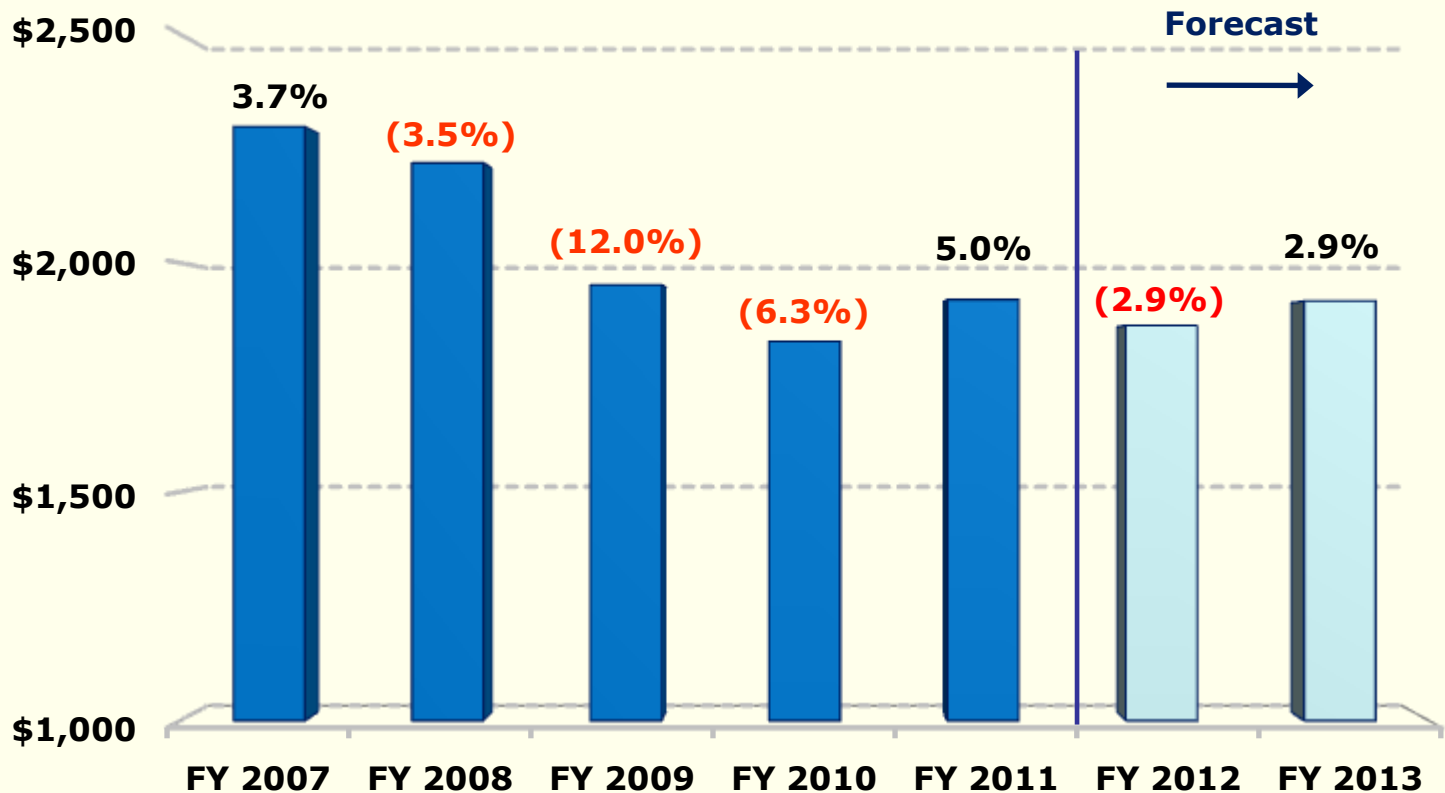
# Real Per Capita General Fund\*-State Revenue

\* General Fund & Related Funds for FY 2007-2009

General Fund – new definition, for FY 2010-2013

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**Per Capita GF-S\*, \$2005**



Source: ERFC forecast, November 2011



# Conclusion

- The national and state economies appear headed for an extended period of muddle-through – slow economic and job growth, high unemployment and weak confidence
- The level of uncertainty in the baseline remains extremely high, and downside risks outweigh upside risks
- In our February 2012 forecast, we will provide our first forecast for the 2013-15 biennium



# Questions



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